

Rates Outlook

1 October 2020

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Interest Rate Forecasts (Oct)

Highlights

- 1. Global growth upgrades did not fireproof global equity markets in September as bouts of profit-taking that begun with the tech stocks materialised and was followed by global banks being scrutinised for suspicious transactions.** In spite of improving economic assessments in China, Eurozone and Japan, as the World Bank trimmed its 2020 global growth contraction to a milder 4.5% yoy, nevertheless, market players were playing it cautiously amid the countdown to the US elections and lingering concerns about the US fiscal stimulus impasse. Fed officials had sounded more cautious and insistent on the need for fiscal stimulus to shore up the US economic recovery. The latest set of manufacturing PMIs were mixed – while Vietnam, Philippines and Thailand continued to improve to 52.2, 50.1 and 49.9 respectively (up from 45.7, 47.3 and 49.7 previously), the situation was different for Malaysia (49.0 versus 49.3), Indonesia (47.2 versus 50.8 amid the recent Jakarta lockdown), and Myanmar (35.9 versus 53.2). Market trepidation remains about emergent Covid-19 cases warranting lockdowns and prompting another soft growth patch emerging as winter approaches. Many companies are already announcing significant layoffs.
- 2. Prepare for a bumpy ride for risk in October in the run-up to the US elections with potential political gridlock and heightened uncertainty post-election,** if the chaotic and testy first presidential debate between Trump and Biden was any guide. What is unspoken is that Biden's lead over Trump appears to be narrowing and Trump may not easily vacate the White House if a close race materialises and potential legal challenges may emerge, contributing to market volatility spikes. Trump's nomination of Amy Coney Barrett to fill Justice Ruth Bader Ginsburg may set up a bitter confirmation fight in the run-up to the presidential election. To recap, a divided House and Senate could curb any excess on campaign promises but also imply policy uncertainty for key areas of tax, tech, energy and financial regulations for instance.
- 3. Economic recovery in China continued with foreign capital continued to flow into China's financial market on the back of RMB appreciation and favorable yield differential.** Nevertheless, this also raised the concern that whether the recent capital inflow will fuel asset bubbles. We are also concerned about the potential rising real interest rate in China as inflation is expected to slow down significantly in the last quarter of 2020. The rising real yield differential, which may potentially converge to nominal yield differential, could be the challenge to China's recovery and capital inflows. As such, we think China may have to guide the nominal yield lower at certain stage. On RMB appreciation, we don't see any urgency for China to intervene prematurely to put a stop on RMB appreciation for two reasons. First, although RMB has broken the year high against the dollar, RMB index is still below March high. Second, there is no evidence of forming of one-way RMB appreciation expectation in the onshore market given still relatively stable hedge ratio from both exporters and importers.

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USD Interest Rates	4Q2020	2021	2022
Fed Funds Target Rate	0-0.25%	0-0.25%	0-0.25%
1-month LIBOR	0.13%	0.15%	0.25%
2-month LIBOR	0.18%	0.20%	0.28%
3-month LIBOR	0.23%	0.25%	0.30%
6-month LIBOR	0.27%	0.30%	0.33%
12-month LIBOR	0.35%	0.38%	0.40%
1-year swap rate	0.21%	0.30%	0.40%
2-year swap rate	0.22%	0.32%	0.42%
3-year swap rate	0.23%	0.34%	0.43%
5-year swap rate	0.35%	0.40%	0.45%
10-year swap rate	0.70%	0.80%	0.90%
15-year swap rate	0.95%	1.03%	1.08%
20-year swap rate	1.06%	1.15%	1.23%
30-year swap rate	1.12%	1.22%	1.30%
SGD Interest Rates	4Q2020	2021	2022
1-month SIBOR	0.24%	0.29%	0.35%
1-month SOR	0.12%	0.15%	0.19%
3-month SIBOR	0.40%	0.45%	0.53%
3-month SOR	0.17%	0.22%	0.25%
6-month SIBOR	0.59%	0.63%	0.68%
6-month SOR	0.17%	0.24%	0.28%
12-month SIBOR	0.80%	0.85%	0.90%
1-year swap rate	0.25%	0.37%	0.44%
2-year swap rate	0.30%	0.40%	0.50%
3-year swap rate	0.35%	0.44%	0.53%
5-year swap rate	0.46%	0.50%	0.60%
10-year swap rate	0.85%	0.90%	0.98%
15-year swap rate	0.98%	1.06%	1.10%
20-year swap rate	1.10%	1.10%	1.15%
30-year swap rate	1.02%	1.11%	1.17%

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MYR forecast	4Q2020	2021	2022
OPR	1.75%	1.75%	2.00%
1-month KLIBOR	1.87%	1.90%	2.10%
3-month KLIBOR	1.97%	2.00%	2.15%
6-month KLIBOR	2.13%	2.15%	2.30%
12-month KLIBOR	2.25%	2.30%	2.35%
1-year swap rate	1.94%	1.99%	2.25%
2-year swap rate	1.95%	2.00%	2.30%
3-year swap rate	2.02%	2.10%	2.35%
5-year swap rate	2.21%	2.30%	2.45%
10-year swap rate	2.68%	2.70%	2.75%
15-year swap rate	2.90%	2.95%	3.02%
20-year swap rate	3.10%	2.15%	3.20%
UST bond yields	4Q2020	2021	2022
2-year UST bond yield	0.13%	0.19%	0.27%
5-year UST bond yield	0.30%	0.35%	0.40%
10-year UST bond yield	0.65%	0.75%	0.85%
30-year UST bond yield	1.45%	1.54%	1.65%
SGS bond yields	4Q2020	2021	2022
2-year SGS yield	0.19%	0.22%	0.28%
5-year SGS yield	0.44%	0.56%	0.60%
10-year SGS yield	0.86%	0.90%	0.96%
15-year SGS yield	1.15%	1.22%	1.29%
20-year SGS yield	1.25%	1.32%	1.38%
30-year SGS yield	1.22%	1.28%	1.40%
MGS forecast	4Q2020	2021	2022
3-year MGS yield	1.99%	2.10%	2.40%
5-year MGS yield	2.25%	2.35%	2.50%
10-year MGS yield	2.69%	2.75%	2.80%

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